

MEETING OF THE BOARD OF BANK ADVISORS

February 25, 2013

9:00 am

Department of Financial Institutions
324 South State Street, Suite 201
Salt Lake City Utah

Minutes

BOARD MEMBERS PRESENT:

Curt Taylor, Matt Packard, Craig White, Eric Schmutz, and Dave Brown.

DEPARTMENT OF FINANCIAL INSTITUTIONS STAFF PRESENT:

Commissioner Ed Leary, Tom Bay, Mark Peterson, Paul Allred, Darryle Rude, Jared Crowford, and Sonja Long.

OTHERS PRESENT:

Jon Allen, Bank of American Fork; Jason Price, Prime Alliance Bank; Lew Goodwin, Green Dot Bank; Doug DeFries, Bank of Utah; Ray Dardano, Marlin Business Bank; John Sorenson, Home Savings Bank;

1. Call Meeting to Order – Chairman Matt Packard

2. Election of new chairman and vice-chairman -

Dave Brown made the motion that Eric Schmutz should be chairman and Curt Taylor should be vice-chairman, Craig White seconded it. It was unanimous. Matt turned the meeting over to Eric.

3. Minutes –

Dave Brown made the motion to accept the minutes. Matt Packard seconded the motion. The minutes were approved.

4. Legislative Update – Paul Allred

Paul said that his description of the upcoming session in the last meeting was very thorough. The department's bill was SB150, our sponsor was Senator Adams and then Representative Dunnigan on the House side. Our bill passed through both houses on the consent calendar. When a bill is put on the consent calendar there was no debate on the

floor, but one single negative vote can kill the bill. It has been prepared for the Governor's signature.

SB67 – Senator Bramble's surcharge bill – Until the lawsuit is settled with the two major credit card companies, merchants were prohibited from placing on surcharge on customers when they use their credit cards. The settlement says that merchant's can now charge up to 4%. Senator Bramble's bill would put a prohibition on that. The compromise as the bill stands right now, will put a freeze in place for a year. Then the bill will be studied.

SB143 – Senator Harper's bill amending the foreclosure provisions that were put in place last year. There has been a compromise on that bill, it looks like it will pass through the senate. It is making minor changes on the single point of contact.

HB37 – that has passed both houses. That repeals our report requirement. Every two years we had to report to the Legislature our efforts to provide education to the community on financial matters.

Matt Packard asked if there was anything that Paul had noticed that might have an adverse effect on the banking industry. He was on most of the phone calls that UBA holds and didn't really hear of anything. Paul said that they were a bit concerned when HB 84, the species legal tender amendments, there is a real push for this. This is the third year that there has been a bill for this item. As this bill was proposed would have required us to supervise gold repositories. We were not very excited about that because of the liability it created for the State. They want to get into the payment business and they really can't do that without banks. Paul challenged them to come and talk to the department earlier in the year with their ideas. Utah Sound Money is the group pushing this. A discussion was held on the options and problems with this.

Commissioner Leary mentioned that Senator Valentine has been the vocal point behind how to re-organize the liquor licenses in the state. The current editions of the bills have the liquor licenses becoming available for sale. At this point if one becomes available for sale, it goes back to the Commission to be re-allocated. Going forward, at some point they clearly see that if you have a liquor license you should be able to sell that. It is clearly an escrow function, and we would get to review the escrows dealing with liquor licenses. Senator Valentine's current bill would move that to July 2014, but it still envisions those liquor licenses would be available for sale in an escrow function.

Dave Brown asked about the federal sequester. Is there any effect on financial institutions? Commissioner Leary said that he was not aware of any. Paul said that there was an article in the American Banker that said that the SEC and the CFTC would be impacted if the sequester occurred. They predicted that if their budgets get hit, they would slow down on their Dodd-Frank rules. Commissioner Leary said that he had not heard anything on CFPB.

5. Community Bank Performance Trends – Tom Bay

Tom introduced Jared Crowford, one of the new examiners that came on recently. Tom went through his handout. They added the numbers behind the graphs. Eric Schmutz asked if with the mortgage and CFPB on the compliance side, have you seen any examination trends or what the institutions should watch for on the compliance side. Paul said that Eva was out of the office today, so Tom said that he would have Eva come into the next meeting and just give an update on some of the things that she is aware of. Paul said that the FDIC and CFPB are very active on looking at UDAP's right now. It is not just the traditional UDAP's, it is the new consumer CFPB UDAP's. They are deceptive and abusive practices. Those exams tend to be going longer. We are one of only a few states that do joint exams, not only with the FDIC and the FRB, but with the CFPB. Right now the focus seems to be making sure that consumers aren't being taken advantage of. Commissioner Leary said that he hasn't seen heavy emphasis on anything. He asked if anyone had anything that they were concerned with. There was a brief discussion of those who had had a compliance exam recently. Strategic plans are not getting approved. Paul said that they have noticed that it is a problem because Washington now gets involved in that process.

Someone asked if consumer complaints were up. Commissioner Leary said no, not in our office, but some of that could be because of the CFPB. We previously had a very good working relationship in regards to complaint sharing between the Federal Regulators and our office, but that has not been worked out with the CFPB. And he is afraid that some consumers have no idea where to even begin when they have a complaint. We are trying to be one of five states that are going to do a trial run with the CFPB on complaint sharing.

Matt Packard asked Tom if he had any feel for the generation of net income with turning back provisions into your income stream. He is trying to get a feel for if this .6 is really a good run rate for the community bank environment in the state of Utah or are banks still reversing provisions and putting them back into net income. Tom said that he would imagine that there is some of that. He keeps hearing at the meetings that he goes to that 1% ROA may be a thing of the past for community banks. It may be that .6 is the new norm. There was a discussion on this.

6. Discussion on Industrial Banks – Darryle Rude

Darryle gave out a couple of handouts. Industrial Banks have been around in their current form since about 1988, our oldest institution is American Express Centurion Bank. The first handout (#2) goes back to June 2008. Some of the institutions that have been converted, left, decided to go national. We had one, Advanta Bank that was closed. It gives you a snapshot of the history, the number of institutions from 30 down to the current 19. The assets sizes from \$243 billion at one point down to \$127 billion currently. In addition to the industrial banks, Commissioner Leary asked Darryle a little over a year ago to take Ally Bank and CIT, which traditionally would be Tom's banks. They are in the large bank program and supervised a little differently in conjunction with FDIC and the FRB. Commissioner Leary gave out his handout (#4) that shows the comparison of

industrial banks vs. commercial and community banks in asset size. Darryle just wanted to give an overview of the industry.

Darryle feels that when CFPB came into the picture, FDIC stepped up their game. They became a little more conservative. UDAPs are very subjective and they are being reviewed by attorneys in Washington so those exams are taking longer.

He then took some of the ratios that Tom used for the community and commercial banks and put them side by side with the industrial banks (#3). He highlighted a few of the rows that stuck out. He went through the handout.

He went over handout (#5) from the Bank Director Magazine. It shows some of the ratios. This handout shows that community banks in Utah are right in line with the rest of the nation. On the back of this handout is an excerpt from a recent speech by Marty Gruenberg on the importance of community banks. Commissioner Leary wanted to add one other big picture item, there is a moratorium on commercial ownership of industrial banks, that moratorium comes off July of 2013. There are a number of people involved with industrial banks lobbying for them trying to work on Congress.

Dave Brown said that it seems like there are less community banks, is there any justification for that. Commissioner Leary said that he doesn't think that there is. The state regulators are aware of that. It kind of goes up and down. The federal regulators are also aware of it whether they will admit it or not. Right now, the FRB is very supportive of the community bank. Dave also asked if at some point the department could share the status of credit unions in the state. He said that they don't really compete against the industrial banks, it is the credit unions.

7. Commissioner's Comments

He wanted to let the board know that the Utah Senate created an official citation for the department. Last week they went to the Legislature and stood on the Senate floor and then went to the House while the department was recognized for being 100 years old. He gave everyone a copy of citation. He explained that when we provided input for the citation, the numbers were as of 9/30/12 we were the 7th largest in the country for assets under administration. We have now jumped to 5th based on the 4th quarter numbers. Eric thanked the department on behalf of the state chartered banks in Utah.

8. Other business

9. Date of next meeting – May 29, 2013 – 9:00 am